



City of Loma Linda Official Report

Floyd Petersen, Mayor
Karen Hansberger, Mayor pro tempore
Robert Christman, Councilmember
Stan Brauer, Councilmember
Robert Ziprick, Councilmember

COUNCIL AGENDA: October 14, 2004

TO: City Council

VIA: Dennis R. Halloway, City Manager

FROM: Diana De Anda, Finance Director

SUBJECT: Financial Impact of the State Budget and a Sales Tax Refund Granted.

RECOMMENDATION

Staff recommends use of Reserve Funds in the amount of \$504,352 to cover the loss of revenues associated with the State Budget deficit (\$256,475) and a Sales Tax Refund granted to a local taxpayer (\$247,877). At the present time, staff is not prepared to propose budgetary cut backs, but will explore the possibility at mid-year review.

BACKGROUND

On August 2, Governor Davis signed AB1765, the main budget bill for fiscal year 2003-04. In addition to the main budget bill, several trailer bills were passed by the legislature that will impact the City's financial ability to provide basic service to our community. Now that some time has passed we are in a better position to present a preliminary analysis of the impact the State budget will have on our City.

Furthermore, the City recently gained knowledge of a significant sales tax refund granted to one of our local taxpayer. Due to confidentiality issues, the taxpayer's name cannot be mentioned in this report.

ANALYSIS

Budget – Revenue impacts:

- Vehicle License Fee (VLF) – The “trigger” was pulled on June 20, increasing the fees collected back to their pre-1998 rate. On October 1, the increase was fully implemented and revenues collected from that point are to be distributed to cities and counties. Unfortunately, in order to help close the State budget deficit, the scheduled VLF backfill payments for July, August and September were taken by the State. The current estimated VLF loss to the City is \$235,000. Although, the State has recognized the take away as a loan with repayment to occur in three years, this current loss represents 22% of VLF budgeted (\$1,071,000).

- Triple Flip – The swap of 50% of our sales tax revenues for an equal amount of ERAF property tax revenues. The State will dedicate the increased revenues to the debt service of \$10.7 billion in bonds secured to finance a portion of the deficit. The major concerns relating to the “triple flip” are:
 - 1) Sales taxes are received monthly, but the ERAF property taxes will be distributed twice a year (December and May).
 - 2) There will be a delay of receipts based on estimated sales tax revenues versus actual receipts.
 - 3) Possible permanent take away by the State.

The one positive note is that the “triple flip” does not go into effect until July 1, 2004, so we will not see an impact on cash flow until next fiscal year.

- Reimbursement of State Mandated Cost (SB 90) – The State did not budget the amount necessary to fully reimburse Cities for their cost associated with these mandates. Our City’s estimated loss is \$21,475.
- Redevelopment ERAF Shift – The initial shift from Redevelopment agencies to the State was projected to be \$250 million, with the City’s portion budgeted at \$363,300. In the final bills adopted by the State Legislature the shift was reduced to \$135 million, saving our Redevelopment Agency an estimated \$186,000.

Sales Tax Refund Granted – As mentioned above, the City was not notified in advance of this significant (\$433,005) refund being granted. The claim made by the taxpayer goes back several years and pertains to items that should have been reported as exempt from sales tax. The only relief available to the City in this situation is to request an “Offset” from the State Board of Equalization (BOE), which spreads the refund over several payments up to a maximum of eight quarters. The “Offset” only allows for the amount, which exceeds the greater of \$50,000 or 20% of the City’s average quarterly taxes to be deferred.

“Offset” Calculation:

\$433,005 Refund Granted
 (133,800) 20% of Average Quarterly Taxes
 \$304,205 Amount allowed to be “Offset”

The City has requested and been granted an “Offset” for the maximum eight quarters, starting with December 2003 through September of 2005 (\$38,025, per quarter).

In order to assist City Council with their analysis of the General Fund impact the loss of these revenues has created, staff has included the follow financial statements and cash flow graph:

1. An Unaudited Balance Sheet for the General Fund as of September 30, 2003.
2. An Unaudited Statement of Revenues, Expenditures and Change in Fund Balance for the period ending September 30, 2003.
3. A graph displaying the cash flow of major General Fund revenues for fiscal year 2002/03 and for the period ending September 30, 2003. The major General Fund revenues include: Secured Property Tax, Franchise Fees, Sales Tax, Business License and VLF. For fiscal year 2002/03 this represented 49% of General Fund revenues, in fiscal year 2003/04 this represents 45%.

ENVIRONMENTAL - None Known

FINANCIAL IMPACT

General Fund Revenue Losses in fiscal year 2003/04

VLF	\$235,000
State Mandated	21,475
Triple Flip	None
Sales Tax Refund	<u>247,877</u>
Total	\$504,352

Redevelopment Agency Saving in fiscal year 2003/04

ERAF Cut	\$186,000
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CITY OF LOMA LINDA
BALANCE SHEET
GENERAL FUND
AS OF SEPTEMBER 30, 2003

	TOTAL 2003/2004	TOTAL 2002/2003	COMPARATIVE CHANGES
ASSETS			
Cash & investments	3,239,729	2,862,005	377,724
Cash in litigation	0	0	0
Receivables	429,161	453,601	(24,440)
Due From Other Funds	1,670	94,170	(92,500)
Inventories	13,393	8,281	5,112
Prepaid Costs	113,236	152,444	(39,208)
Other Assets	0	0	0
Total Assets	3,797,189	3,570,501	226,688
LIABILITIES & FUND EQUITY			
LIABILITIES:			
Accounts Payable	22,595	287,495	(264,900)
Deductions Payable	(3,451)	18,748	(22,199)
Deposits	495,816	536,395	(40,579)
Due to Other Funds	402,500	527,500	(125,000)
Deferred Revenue	0	5,508	(5,508)
Total Liabilities	917,460	1,375,646	(458,186)
FUND EQUITY:			
Reserved	686,761	1,096,944	(410,183)
Unreserved:			
Designated	2,050,000	1,850,000	200,000
Undesignated	142,968	(752,089)	895,057
Total Fund Equity	2,879,729	2,194,855	684,874
Total Liabilities and Fund Equity	3,797,189	3,570,501	226,688

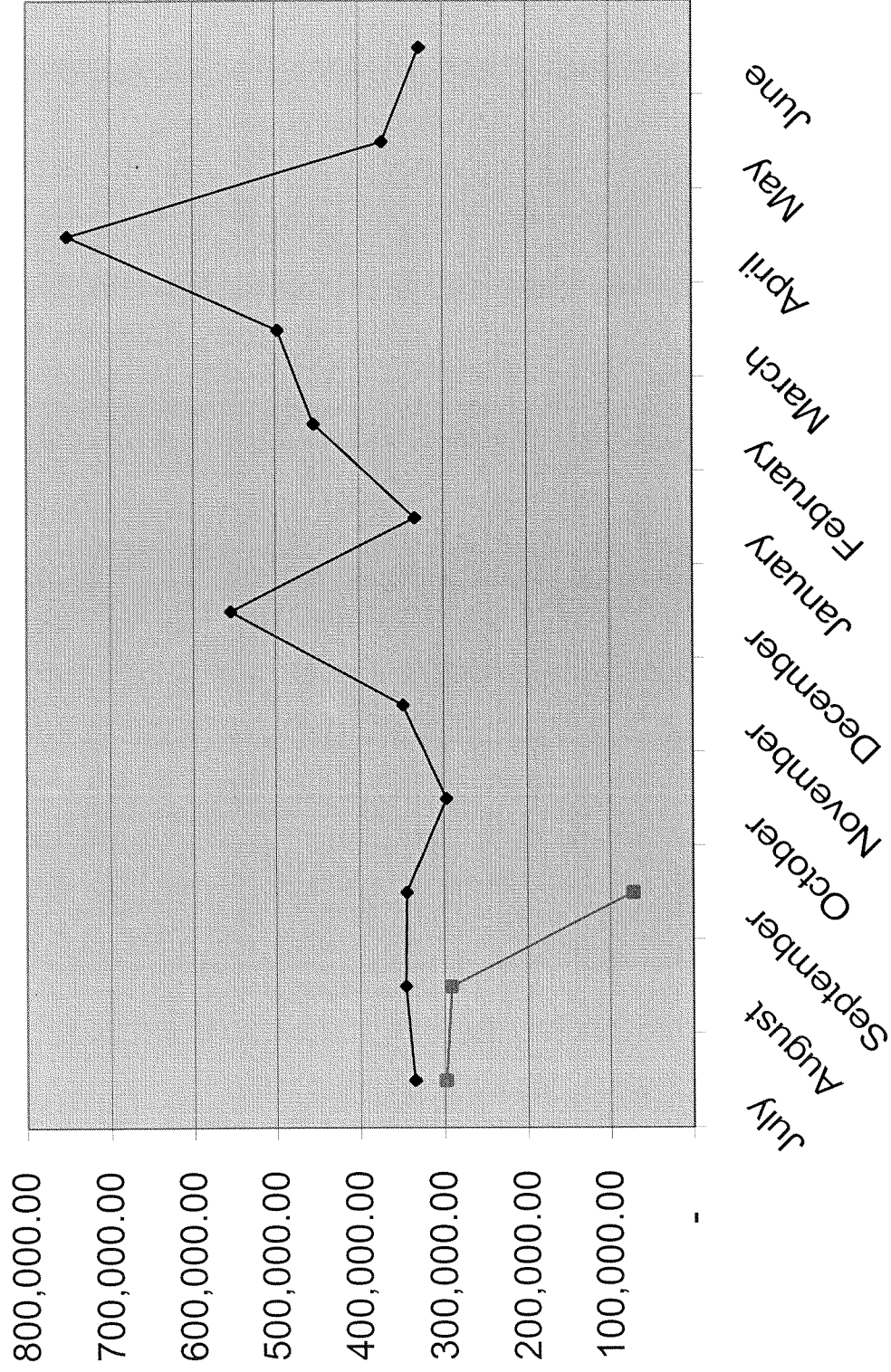
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CITY OF LOMA LINDA
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE PERIOD ENDING 09/30/03

	TOTAL 2003/2004	TOTAL 2002/2003	FY 2003/2004 BUDGET	PERCENT OF BUDGET	COMPARATIVE CHANGES
REVENUES:					
Property Taxes	0	0	682,100	0%	0
Sales Tax	262,670	472,919	2,767,500	9%	(210,249)
Taxes Other	37,891	12,654	401,300	9%	25,237
Licenses	170,951	89,975	605,700	28%	80,976
Interest	179	196	33,400	1%	(17)
Other Governments	71,473	208,963	1,092,600	7%	(137,490)
Service Fees	584,119	546,247	2,545,200	23%	37,872
Other	166,215	152,166	1,973,400	8%	14,049
TOTAL REVENUES	1,293,498	1,483,120	10,101,200	13%	(189,622)
EXPENDITURES:					
General Govt	279,545	404,064	1,774,900	16%	(124,519)
Public Safety	1,033,104	1,045,033	4,775,600	22%	(11,929)
Public Works	205,872	173,311	1,074,300	19%	32,561
Refuse	227,479	422,322	1,761,200	13%	(194,843)
Parks	85,995	97,950	421,300	20%	(11,955)
TOTAL EXPENDITURES	1,831,995	2,142,680	9,807,300	19%	(310,685)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	146,835	106,309	1,082,900	14%	40,526
Operating Transfers Out	(217,601)	0	(1,113,600)	0%	(217,601)
TOTAL OTHER FINANCING SOURCES (USES)	(70,766)	106,309	(30,700)		(177,075)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(609,263)	(553,251)			(56,012)
BEGINNING FUND BALANCE, AS RESTATED	3,488,992	2,748,106			740,886
ENDING FUND BALANCE	2,879,729	2,194,855			684,874

UNAUDITED, FOR MANAGEMENT PURPOSES ONLY.

City of Loma Linda
Cash Flow of Major General Fund Revenues
Fiscal Year 2002/03 vs. 2003/04



—◆— Fiscal Year 2002/2003 —■— Fiscal Year 2003/2004